Harland Clarke Webcast
The Informed Banker – The Marketer's Guide to Justifying Your Extistence, Part Two
TRANSCRIPT

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Nathan: Good day, and welcome to Harland Clarke's The Informed Banker Webcast Series: The Marketer's Guide to Justifying Your Existence - Part Two. This webcast is being recorded and will be provided to you within a few days. If you have questions, please use the chat box located in the control panel. The questions are private and are only seen by the presenters. I will now turn the call over to Christine Ahlgren with our Marketing Department at Harland Clarke. Christine, you have the call.

Christine: Thank you, Nathan, and welcome to everyone who's joining us today. We hope you'll find significant value in this segment of Harland Clarke's Informed Bankers Series. The series is designed to cut through the noise and bring you succinct, timely information on topics that are critical to community financial institutions. The feedback you provided in the surveys we sent out after each installment of this series has allowed us to tailor the topics for future sessions to best meet your needs.

Our next segment, Social Media: Driving Business Results Through Engagement, will be presented by our friends at Filene Research and held on August 23. In that session, we'll discuss not only how to maintain a consistent presence on social media, but to also create an effective strategy to stay relevant for today's networked, engaged, and demanding audience, so keep an eye out for that invitation, which should be hitting your email box shortly. For today's presentation, we have the second installment of a three-part series that was created by Harland Clarke's very own Steve Nikitas, and it's called The Marketer's Guide to Justifying Your Existence. Today we are going to discuss the tools that are needed to effectively communicate the bottom line impact of marketing spend, and we're going to delve into activating and engaging your existing account.

Now, just a bit about Steve before we get started, Steve has 35 years of financial services experience in marketing, PR, retail banking, and operation. He's had executive positions at financial institutions in New York, California, and Massachusetts where he developed and implemented programs that resulted in significant growth rates in loans, deposits, and accounts. As a senior strategist at Harland Clarke, Steve consults with financial institutions to craft marketing,

retail, and campaign strategies to help financial institutions grow and prosper. Steve, thank you again for being with us today. The floor is all yours.

Stephen: All righty, great, thank you very much, Christine. Welcome everybody to, as Christine mentioned, our second of three segments on how marketers can justify their existence. For the next 30 minutes – let's take a look at the next slide, and let me quickly go over what we're going to chat about today. We're going to start off talking about lifecycle marketing and how lifecycle marketing really should be the Bible for every marketer and retailer out there in order to make sure that we're acquiring, and engaging, and retaining our accountholders. From there, we will segue into a discussion about, basically, inspecting what you expect. That's looking at what it costs to acquire accounts; what it costs to retain accounts, to deepen relationships; really, tools and information that a marketer and retailer can use in these extremely challenging times for financial institutions. For example, we know that net interest margins are at or near historical lows. Lots of financial institutions are looking to do whatever they can in order to improve their efficiency ratios to bolster their return on assets, and often times, marketers are left looking for ways to justify their budget and ways to justify continuing with programs that they may have already implemented or are looking to implement.

Let's go to our next slide, and talk about lifecycle marketing on this particular slide. I love this chart because, to me, this really represents the one tool that a marketer or a retailer can rely upon in order to drive all of their activities throughout the course of the year. It's the lifecycle marketing continuum, and it starts with initiation or acquisition. Financial institutions do that through checking acquisition campaigns, through credit trigger programs where they're able to identify prospects within their market footprints who might be looking for a credit product of some sort. Marketers also acquire or initiate involvement with a financial institution through recapture programs, through prescreened programs that might target prospects. Once we get that new account holder on board, whether it's a bank or a credit union, we need to engage that particular account holder in order to make sure that that relationship starts out on the right foot, and that that particular account holder is engaged in utilizing the product or products that we put in front of that account holder in order to attract them to our financial institution.

Now, banks and credit unions are able to engage through programs like onboarding or communicating with that new account holder at particular milestones during the early stages of their relationship with the financial institution. Typically, those milestones come with a welcome letter, a reach out at day 30, a reach out at day 60, another one at day 90, maybe even one at day 120. Then many financial institutions who are involved in onboarding will even

reach out to that account holder a year down the road to celebrate that account holder's anniversary, and maybe communicate some sort of promotional product or service in order to award the account holder for their business. From there, we're able to go into the expansion or cross-sell stage. We know that lots of products and services are purchased and utilized during the engagement stage, but we want to make sure that we are continuing to talk to our account holders throughout their involvement with our financial institution to ensure that cross-sell ratios are as high as they can possibly be, to ensure that share of wallet is as high as it can possibly be, to ensure that attrition levels are as low as they can possibly be. We know, when attrition levels are low, it's often times an indication of account holder satisfaction with our financial institution.

How do financial institutions cross-sell? Often times, they rely on propensity tools. Propensity analytical tools that help a financial institution to identify the product or service that particular account holders show a likelihood for. We know that when we utilize propensity analytical models, the cross-sell rates are extremely high, and I'll talk more about cross-sell and propensity tools in a little bit. Other cross-sell endeavors involve, again, recapture activity where we're reaching out to our existing account holders, identifying loans or credit products that they may have at other financial institutions. Then encouraging them to refi that particular product with our financial institution, which, let's face it, they should have come to us for in the first place, so a couple of ways that we're able to expand or retain the relationship with our existing account holders.

Now, let's go to the next slide. On this particular slide, we talk about checking and using checking acquisition as a tool to help acquire new account holders. Why do we do that? Why do so many financial institutions rely on checking promotions in order to attract new account holders? Pure and simple, we know that on any given day, about 18% of the Millennial or Gen Y population is out there looking to change their primary financial institution. As marketers and as retailers, it really behooves us to get in front of the audience. Particularly, in this case, a younger audience who may for one reason or another maybe be dissatisfied with their current financial institution or maybe starting out on their first career or professional occupation, and they're looking for someone to provide financial management tools to them. We want to stay in front of particularly younger consumers, and promoting our checking product is a great way to do that. Simply because we're getting ourselves in front of an audience that is going to be very receptive to the communication, to the product that we're putting in front of them.

Now, on this slide, I like this slide because, to me, it really bears the importance of a financial institution going out there with checking. I won't go through every row here, but I'll go through a handful. I'll start at the top. This is a national –

these are national averages, both banks and credit unions. On average, 65% of a bank or a credit union's checking account holders are profitable for that financial institution. That's the good news, but the not so good news is on the next row where you got about a third of all of our account holders are not generating any profits for our financial institution. As a marketer and as a retailer, to me, that presents a great opportunity because we need to be out in front of those – in front of our checking account holders with both onboarding and with both cross-sell programs in order to further engage and retain those account holders, deepen that share of wallet relationship, and strengthen that cross-sell relationship with those particular account holders.

As you go down the right-hand column, you'll see some costs: annual NSF fees, annual checking account service charges, annual miscellaneous fees, debit card interchange income, so on and so on. A typical checking account holder, on average at both banks and credit unions across the U.S., on average is going to generate $150 in fee income for my financial institution. That's just non-interest income. It doesn't include interest income that's going to come from that engaged checking account holder's revenue that's going to be generated by additional deposit products and additional credit products. Keep that in mind as we're going out there looking for new checking account holders within the prospect field of our market footprint. We know, on average, they're going to generate about $150 in non-interest income.

Then, finally, at the very bottom of this chart, the average age of a checking account holder, 51 years of age, nothing wrong with getting old. I want to get old myself some day because the alternative isn't too appeasing, but nonetheless, 51 years of age for an average checking account holder in banks and credit unions across the country today is probably a little bit too long in the tooth. As marketers and retailers, again, it makes all the sense in the world for us to focus our acquisition efforts on attracting younger consumers who are going to be entering our financial institution at those life stages where their need for more credit products and for more investment and deposit products is going to be pronounced. They are going to be the ones who are going to generate more profit for our financial institution.

Let's go to the next slide. On the next slide, we've talked about acquiring new checking account holders. While we acquire a new checking account holder, how do we go back to our senior management team and justify the marketing dollars that have been spent in order to bring in new account holders? This particular slide is a sample that I share with other financial institutions when I report back on checking acquisition campaigns with which I've been involved in my role as a Senior Strategy Director at Harland Clarke. As you look at this particular table, something for you to consider as we're justifying our roles at

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our banks and credit unions. In this case, you look at the three columns: account holder, prospect, and total. We're measuring our efforts, looking at our existing members or our existing customers under the account holder column. We're looking at our efforts under the prospect column and then totaling everything up.

Let's take a look at the account holder column very quickly. In this particular checking acquisition campaign, this financial institution reached out to 16,376 existing members or customers who did not have a checking account with that institution. As you drill down the column, you'll see that the household response rate was 8.05%. I'll take an 8.05% response rate any day of the week. Particularly because the direct marketing association says that, in our world, a 1½ to 2% organic direct mail campaign is considered to be a very good response. In this case, again, talking organically, we're seeing an 8.05% response rate. Drill down a little bit deeper, you'll see that our direct response rate in this campaign was 1.07%. Those are the account holders, the existing account holders who eventually opened up a checking account, and then as you continue to drift down that column, you'll see average balances, campaign cost, and total balances acquired, more than $12 million.

As a marketer, the real tools to help justify this particular campaign are in those last three rows. It costs this particular institution $3.87 to get a household to respond. It costs this particular institution $28.99 to open up a checking account. In this case, a new account, whether it's a checking account or any indirect deposit or credit product, this institution was able to open it up to a direct mail campaign at just $2.50. That's the luxury of direct mail, right? We can measure what we want to measure. We can inspect what we want to expect. We certainly can't do that with a mass media campaign involving newspaper ads, or radio ads, or TV ads.

Let's go one column to the right very quickly under prospect. In this case, this institution reached out to 82,409 prospects; their household response rate for prospects, a very strong 46 basis points; drilling down a little further, their checking account response rate, 24 basis points, very strong. You can see that prospects brought in about 4.3 million in overall balances, but the true test of whether this campaign was successful or not, at least from a prospect perspective, is in those last three rows. Sixty-seven dollars and seventy-six cents can get a household to respond. Having been doing this for so many years, it's certainly tough to do that through a newspaper ad or a radio ad, $132.37 to open up a checking account for a new prospect. Now, some of you, particularly those of you on the credit union side, are probably familiar with Callahan & Associates. A few years back, Callahan & Associates conducted a survey among

credit unions, and it found that, on average, credit unions were spending $442 to acquire a new checking account.

That was a blend between both existing account holders and prospects. In this case, this institution did it for $132.37, and the cost to get a prospect to simply come in and open up either a direct or an indirect product, just $28.47, very, very strong numbers. That's the way to look at acquisition. We want to look at the cost per account, the cost per household, the cost per direct account that we're out there marketing. Those are numbers that a marketer or a retailer can certainly put in front of a senior management team member, whether it's a CFO or a CEO. In this case at least, real strong numbers certainly make some impressions on the efficacy of this particular direct mail campaign.

Let's go to the next slide. We've talked about acquisition. On the next slide, let's take a look at retention. We want to make sure that we bring an account holder into the financial institution, again, whether it's a bank or a credit union, but we want to make sure that we're doing everything we can to keep that particular account holder engaged and involved with our financial institution. Where do I start? What are some of those things I should be looking at in order to determine whether my marketing efforts, my retail efforts are truly effective?

On this particular slide, we're looking at attrition by length of relationship or by tenure. We've got a couple lines here. Harland Clarke maintains a database of well over 100 financial institutions. I call it our benchmark, and this is information that I will use with other financial institutions when I measure attrition. In this case, the benchmark attrition rate by tenure is in the salmon colored or orange line, and this particular financial institution's attrition levels are in the blue line. If we go all the way over to the left-hand side, you can see that attrition first year is coming in at almost 23% for the financial institution in question while the Harland Clarke benchmark shows that first year attrition, on average, for those financial institutions with whom we work is about 18.6%.

Right off the bat, what do we know? This particular financial institution might have a problem early on in retaining those new account holders. Let's face it. As I mentioned earlier, we're spending well over $400 to bring a new checking account holder in the door. That's wasted money, particularly if I've got a nearly 23% attrition rate in year one. This is a very valuable place to start to help us understand who we should be marketing our efforts to in order to make sure these customers are engaged. Looking at this slide, it looks like this institution needs to do a better job of maybe things like onboarding in order to get that customer up and running with our products and services as quickly as possible. After year one, attrition gets much more closer to the benchmark levels, and in a couples cases here, it looks like it actually goes below benchmark.

We've looked at attrition from a tenure perspective. Let's go to the next slide. Here's another way your financial institution, you as a marketer, can take a look at attrition. On this particular slide, we're looking at it from product relationship. Again, you can see the blue bar is the particular financial institution in question. The salmon colored or orange line is the benchmark for Harland Clarke.

You can see, in this case, this financial institution, that consumer has just one product with the institution. They're doing a better job of keeping those account holders in the fold than the benchmark in general, but then something interesting happens here. As that account holder gets more products with the particular financial institution, the attrition rates start to go above and beyond what the benchmark is, so that's where we may want to make sure we'll have upfront conversation with the financial institution to see what kind of engagement those account holders are having with the institution. They may have additional products or services in their wallet, but when I look at this slide, what it tells me is they're not using those particular products or services. They may be draining balances while the financial institution records that account holder as having two, or three, or more products in their wallet, but obviously, those products are not being used.

Now, let's go to the next slide. On the next slide, what kind of impact does it have on a financial institution when we do not have a lot of engagement with our account holders? I put together this build slide, and let's go to the next slide. This is a rather large financial institution that I work with. In this case, what I found was that there are 219,600 what I call at-risk households. An at-risk household is a household that has just one or two accounts with the financial institution. Now, as a marketer, I love metrics, and I love goals. Let's say our goal for this institution is to whittle that number of at-risk households by 10% over the course of the next 12-month period, taking the number of at-risk households from 219,000 down to a little more than 197,000.

Let's take a look on the next slide of what happens when I deepen the relationship with these at-risk households. If I can get three or more balance-bearing products in these particular consumers' hands, I will see an incremental balance lift of over $35,300. Not bad. Deepening the relationship by appropriately marketing more deposit and credit products will provide a $35,300 incremental balance lift. What's the bottom line impact for my financial institution when I do that with just 10% of the at-risk households? Let's go to our next slide, and take a look at that.

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On our next slide, the impact is $775 million in additional or in incremental balances, either deposit or loan balances. I get that number simply by taking 10%, my 10% target, $21,960 households, and multiplying that by the incremental balance lift that I know I'm going to realize by getting three or more products in those consumers' hands. On our last slide, what are we looking at? Here's the proof in the pudding, bottom line opportunity for the institution, $20, 930,076 in additional interest income when I apply their net interest margin, 2.70% in this case, to the overall balances that we're going to bring in through this program. Let's go to our next slide.

Christine: Steve, this is Christine. You're presenting such great content. I hate to jump in, but I just wanted to let you know we have four minutes left. We do have a couple questions, so I'll let you know – I'll let you tell me when you're ready for those questions.

Stephen: Okay. Let's go to Slide 10, and I'll jump through this very quickly, a couple of other items that we ought to measure as marketers on Slide 10, cross-sell ratio on the left-hand side, again, the Harland Clarke benchmark in the salmon, and in this case, the particular financial institution in question in the green. You can see on the left-hand side cross-sell ratio, benchmark 3.2. This institution happens to be doing better than the benchmark. This institution has 3.6 products and services on average in their account holder's wallet. Then on the right-hand side, single account households, another great tool to measure. How many of my account holders out there have just one product or service with me? In this case, the institution matches the benchmark at 27%.

Let's go to our next slide, and after this slide, we'll see if there are any questions. On our next slide, we are taking a look at how we can most effectively market to our existing account holders. This is Slide 12, Slide 11 rather, on our presentation. On Slide 11, this is a propensity model that Harland Clarke maintains that I use on a regular basis. The X axis measures attrition. Attrition going left to right, increasing as we go left to right. The Y axis measures purchase potential. As we go bottom to top, the purchase potential among the account holders increases.

Very quickly, if I look at that high-touch bucket in the upper right-hand corner, based on the proprietary propensity model that we use with cross-sell campaigns, those customers or members in the high-touch bucket are customers or members who show a high likelihood to attrite from the institution based on where they sit on the X axis, all the way over to the right-hand side, but they also show a high likelihood to buy more product from the institution based on where this bucket happens to reside on the Y axis. As a marketer, I certainly want to target account holders in that bucket because they

typically tend to be younger. They're at that life stage where they have a need for more of my products and services, but they also are a little bit risky because they are often times the targets for other financial institutions. With that, Christine, what questions might we have out there that I can answer before we wrap up?

Christine: Great. I'll just give you one since that's all we have time for. It goes back to the account holder retention, Slide 7. There was interest in how long that campaign went on for that you were providing the metrics on.

Stephen: Typically, when we look at attrition, we look at a one year window of attrition. We're measuring attrition between, let's say, July 19, 2016 and July 19 of 2017, and we're measuring the attrition activity between that 12-month window, or I should say within that 12-month window.

Christine: Thanks, Stephen. Unfortunately, that's all we have time for today. As a follow-up to today's program, all the callers can expect to receive an email from Harland Clarke with the follow-up survey I mentioned earlier. There'll be links to the recording of this presentation as well, and you can certainly feel free to share that recording with any of your colleagues who may have missed today's session. Steve, thank you again for your sharing with us today, and I'd like to extend a very sincere thank you to the many financial services professionals who made time to be with us today. We really hope to see you again at future Informed Banker Sessions, and that will conclude our session today. Thanks again for joining.

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